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IDAHO PUBLIC
UTILITIES COMMISSION

August 5, 2002

Idaho Public Utilities Commission
472 W. Washington
Boise, Idaho

Re: Case Number GNR-E-02-1

Dear Commissioners,

I am the CEO and one of the founders of US Geothermal, an Idaho corporation currently engaged in attempting to develop the Raft River geothermal project located in Cassia County. I have lived and worked in Idaho for 16 years. Technical analysis of the Raft River site indicates that it can produce a minimum of 10 MW and could be on-line as early as 2004 if the economics are feasible. I strongly support a moderate QF avoided cost level of 6 to 6.5 cents/kw-hr and believe that this rate would be sufficient to support new, renewable projects in Idaho.

Some testimony has attempted to paint QF developers as money hungry carpetbaggers ready to descend upon Idaho if avoided cost rates are set too high, and pick the pockets of the unsuspecting ratepayers. My experience tells me that most existing and potential QF developers are Idaho corporations or individuals that are interested in developing an existing resource in the state. They do not want or expect an extraordinary price for their power, but do need to have a fair price that will allow us to grow an industry that has proven its reliability with years of power production.

There is a natural limit to how much QF power can be generated in Idaho. There are only so many economic canal sites, wind sites, geothermal sites, or potential biomass generators available. I am an Idaho Power customer, and if I had a choice between paying slightly more for my power to get long term stability, or rely on a potentially volatile market to set my rates, I would choose stability.

I would like to start my comments with several observations. Where is Idaho in regard to power supply in general and in the development of new, clean energy sources? Within the last several weeks, we have seen the failure of three major gas fired power plants. First the Garnet plant was shelved, primarily because it could not be financed. The clear message to me is that the very avoided cost rates being put forth by the utilities in this hearing cannot support the economic development of the SAR facility we are to being compared with. Idaho Power's 2002 Integrated Resource Plan depended upon the Garnet facility to avoid the upcoming energy shortfall.

Cogentrix and Newport Generation Inc. both had large gas fired plants under consideration in northern Idaho, and they have been scrapped. That is over 1500 MW of new generation that will not come on line. These new gas plants were portrayed as the answer to the growing shortage of electrical power generation in Idaho and the Northwest. There is no doubt that gas fired generation will end up carrying the majority of the burden in the future, but a wide range of sources must be developed so that one method is not relied upon.

I would make a second observation in regard to the basic avoided cost calculation. As an engineer with 27 years of experience, directly involved in economic feasibility studies, construction and operation of large industrial facilities, it strikes me that the comparison between the current SAR, typically a 250-500 MW facility and a small, 10MW QF is not a fair one. There is an incredible advantage in the efficient use of capital and low operating cost inherent in the large size of the SAR facilities under consideration. I know the intent of the calculation, but because of the size differential built into the comparison, the "economy of scale" strongly penalizes QF development with a 10MW size limit.

Comments on Peseau Opinion and Testimony

Mr. Peseau presents several opinions in his testimony that are not supported by fact or the historical record of QF development in Idaho. His constant use of the phrase "very high rates" is an interesting attempt to plant his concept of what defines the term at this point in time. In April 2001, the 15.9 cents/kw-hr paid by Idaho Power to curtail energy use in Idaho was considered to be a cheap rate, at that moment in time. We are now at the low point of an energy price cycle and thus avoided costs should be developed to seek an average level in the context of our recent experience.

On page 3, lines 9-12, Mr. Peseau concludes, "tensions exist between ratepayers and QF developers". Nothing could be further from the truth. I believe the interests of QF developers and the ratepayers are perfectly aligned. QF development has historically provided long term stability to power rates at a reasonable price. I don't recall any individual ratepayers or independent organizations representing ratepayers protesting the current avoided cost rates. Many Idaho residents strongly support a diversity of energy sources and renewable energy projects in particular. I have discussed our geothermal power generation project with numerous Idahoan's and in particular point out that the incremental cost for clean, renewable power is higher than our current base power rate. Most individuals recognize this difference and still support renewable development.

On page 3, lines 20-22, Mr. Peseau states, "very high rates will attract the attention of major national and international developers". He is evidently trying to scare us with imagined hordes of QF developers just waiting to flood into Idaho. Again, no one in the QF community is asking for unreasonably high avoided cost rates. The fact is that most QF projects are based upon either a cogeneration plant or one that utilizes a natural resource. There is a practical limit to the number of economic sites, and the amount of power than can be generated and transmitted around the state. It takes years to find, define, permit, finance and build a facility.

On page 4, lines 7-12, Mr. Peseau states, "past assumptions will stimulate excess development". This proclamation is pure speculation and is unsupported by fact. As noted above, most QF projects in Idaho are tied to a specific fuel such as biomass, or a natural resource, small hydro/canal projects, wind, or geothermal. There are only so many sites available for development, and as the QF history in Idaho demonstrates, most individual projects will be smaller than 5 megawatts. For example, the 52 current Idaho Power QF contracts that are less than 5 megawatts have an average power output of 1.08 megawatts. Are there 52 new sites available (I doubt it)? Would another 56 megawatts of power constitute "excess development"? There is only one geothermal site close to development and perhaps 3-4 truly economic wind sites of significant size.

Comments on Avoided Cost Calculation

Current Year Fuel Cost – I do not believe that any future forecast of gas prices should be used in the calculation. Future forecasting is too often proven wrong by history. I agree with PUC staff that the current methodology is sound, but that the simple way to smooth any volatile price swing is to use a time period longer than the one year average now employed. The PUC staff has recommended a 5 year rolling average. This would be a 500% change to a long established factor in the calculation. I would support a more moderate approach and recommend changing the Current Year Fuel Cost to a 3 year rolling average. This fuel cost should continue to be adjusted on an annual basis.

Escalation Rate for Fuel – I agree with PUC staff's assessment of the fuel escalation rate of 4.4%. It is a safe level of reduction from the current standard of 6%, and it at least provides some protection from future gas price increases caused by future short falls in gas production and/or poor deliverability.

First Deficit Year – As noted in my original comments on this subject, the First Deficit Year is not a real number and is under the complete control of entities with a vested interest in "moving the goal line". I believe PUC staff is correct in his assessment. The First Deficit Year factor should be removed from the calculation.

SAR Plant Cost and Fixed O&M – The best available information on plant costs and fixed O&M cost is provided by Idaho Power. Their recent, detailed cost studies of the Garnet generating station have to provide the most accurate, up-to-date information for what could be termed a "representative" plant site in Idaho. I do admit to a little confusion on this point since in the May 21, 2002 motion filed by Idaho Power Company, Attachment A, a SAR Plant Cost ($/kw) of $880 was indicated compared to their latest filing with a recommended cost of $729.

Heat Rate - The heat rate is heavily dependent upon the elevation, temperature profile and humidity of each plant site. Although testimony on behalf of Idaho Power provides the most detailed case for a Boise site, I believe an average profile should be incorporated into the model. Most of the rest of Idaho is at significantly higher elevations and will thus have a higher heat rate. I support the heat rate recommendation of 7,100 made by PUC staff as being more representative of the state as a whole.

The QF industry has a long, successful history of providing electrical power to Idaho. It has never demanded an unreasonable rate for power generated, just a reasonable plant size, a fair contract term, and an economic power rate structure. The Commission has seen fit to grant us the first two items. Now is the time to demonstrate a commitment to the future and support the development of renewable energy in Idaho, not to the detriment of the ratepayer, but to their clear benefit over the long term.

My company will be very pleased to provide Idaho with firm, base load power, to create jobs, and help expand a vital industry.

Sincerely,

Doug Glaspey
CEO